

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 AID-20 CIAE-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12 CIEP-02 LAB-06

SIL-01 OMB-01 NSC-10 SS-15 STR-08 CEA-02 PA-03 PRS-01

USIA-15 ABF-01 RSR-01 /166 W
----- 115338

R 171738Z AUG 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3427

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

TREASURY DEPT WASHDC

UNCLAS SECTION 01 OF 03 LONDON 09537

DEPARTMENT FOR FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING AUGUST 17

BEGIN SUMMARY: STERLING CONTINUED TO MOVE DOWNWARD

AGAINST THE DOLLAR, CLOSING AT \$2.4605 ON THURSDAY

(AUGUST 16). AGAINST OTHER MAJOR CURRENCIES THE POUND

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STRENGTHENED AND THE TRADE-WEIGHTED DEVALUATION WAS

16.52 PERCENT, AN IMPROVEMENT ON LAST THURSDAY'S (AUGUST 9) DEVALUATION OF 17.87 PERCENT. THE PRICE OF GOLD CLOSED ON WEDNESDAY (AUGUST 15) AT \$94.75, THE LOWEST PRICE SINCE MAY. IN JULY, THE UK RECORDED A VISIBLE TRADE DEFICIT OF 159 MILLION POUNDS, AN INVISIBLE TRADE SURPLUS OF 58 MILLION POUNDS AND A CURRENT ACCOUNT DEFICIT OF 101 MILLION POUNDS. PRELIMINARY ESTIMATES OF GDP FOR THE SECOND QUARTER 1973 INDICATE A SLOWDOWN IN THE UK'S RATE OF EXPANSION. INDUSTRIAL PRODUCTION IN ALL INDUSTRIES IN JUNE DROPPED SLIGHTLY, WHILE PRODUCTION FOR MANUFACTURING INDUSTRY ROSE SLIGHTLY. WHOLESALE PRICES ROSE SHARPLY IN JULY. MORTGAGE RATES ON HOME LOANS HAVE BEEN RAISED FROM 9.5 PERCENT TO 10 PERCENT. THE MAJOR BANKS CONTINUE TO RESIST THE PRESSURE TO RAISE THEIR BASE LENDING RATE ABOVE 10 PERCENT ALTHOUGH MORGAN GUARANTY AND FIRST NATIONAL BANK OF CHICAGO HAVE RAISED THEIR BASE FOR LENDING TO 11-1/2 PERCENT. BARCLAYS AND NATIONAL WESTMINSTER ARE LIKELY TO BE AMONG THE FIRST BRITISH GROUPS TO SET UP BRANCHES IN CHICAGO FOLLOWING THE RELAXATION OF ILLINOIS BANKING REGULATIONS. END SUMMARY

1. STERLING HAS DROPPED 215 POINTS AGAINST THE DOLLAR SINCE LAST THURSDAY, FROM \$2.4820 (AUGUST 9) TO \$2.4605 (AUGUST 16). WHILE STERLING HAS BEEN MOVING DOWN AGAINST THE DOLLAR, THIS MOVEMENT IS DUE TO THE STRENGTHENING OF THE DOLLAR RATHER THAN A BASIC WEAKENING OF STERLING. THE WEIGHTED DEPRECIATION OF THE POUND FROM DECEMBER 1971 LEVELS NARROWED TO 16.52 PERCENT ON THURSDAY COMPARED TO 17.87 PERCENT LAST THURSDAY (AUGUST 9). THUS, STERLING HAS BEEN STEADILY IMPROVING AGAINST MAJOR EUROPEAN CURRENCIES. GOLD MOVED DOWN TO \$94.75 ON WEDNESDAY (AUGUST 15) BUT GAINED \$5.75 ON THURSDAY TO CLOSE AT \$100.50. WEDNESDAY'S PRICE REPRESENTS A DROP IN THE GOLD PRICE OF \$32 SINCE JULY 6 AND IS THE LOWEST PRICE SINCE MAY 10. THE FALL IN THE PRICE IS DUE PARTLY TO THE SHARP RISE IN INTERNATIONAL INTEREST RATES, WHICH HAS REDUCED THE ATTRACTIVENESS OF HOLDING GOLD AS AN INVESTMENT. THE STRENGTH OF THE DOLLAR HAS ALSO BEEN A CONTRIBUTING FACTOR.

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2. IN JULY, THE UK RECORDED A VISIBLE TRADE DEFICIT OF 159 MILLION POUNDS (S.A.) WITH EXPORTS OF 982 MILLION POUNDS (F.O.B., S.A.) AND IMPORTS OF 1,141 MILLION POUNDS (F.O.B., S.A.). THE BALANCE ON SERVICES AND OTHER TRANSACTIONS IS ESTIMATED TO HAVE BEEN RUNNING AT A MONTHLY SURPLUS OF ABOUT 58 MILLION POUNDS. THE CURRENT ACCOUNT IS ESTIMATED TO HAVE BEEN IN DEFICIT BY 101

MILLION POUNDS. FOR THE FIRST SEVEN MONTHS OF 1973, THE UK RECORDED A VISIBLE TRADE DEFICIT OF 921 MILLION POUNDS COMPARED TO A DEFICIT OF 162 MILLION POUNDS FOR THE SAME PERIOD IN 1972.

3. PRELIMINARY ESTIMATES OF GDP FOR THE SECOND QUARTER SHOW AN ANNUAL RATE OF GROWTH OF 3 PERCENT COMPARED TO 6.4 PERCENT IN THE FIRST QUARTER. SINCE THESE ESTIMATES ARE DISTORTED BY THE EFFECT OF THE PRE-VAT SPENDING BOOM (FOLLOWING WHICH THERE WAS A 10 PERCENT DROP IN OUTPUT OF THE DISTRIBUTIVE TRADES DURING THE SECOND QUARTER), THE UNDERLYING RATE OF GROWTH WAS PROBABLY NEARER TO 4 PERCENT. NEVERTHELESS, THE

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INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12 CIEP-02 LAB-06

SIL-01 OMB-01 NSC-10 SS-15 STR-08 CEA-02 PA-03 PRS-01

USIA-15 ABF-01 RSR-01 /166 W
----- 115482

R 171738Z AUG 73

FM AMEMBASSY LONDON
TO SECSTATE WASHDC 3428
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
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USMISSION EC BRUSSELS

USMISSION OECD PARIS
USDOC WASHDC
TREASURY DEPT WASHDC

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NUMBERS INDICATE A SLOWING DOWN IN THE ECONOMY WHICH BEAR OUT THE UK TREASURY'S CLAIM EARLIER IN THE WEEK THAT "THERE MAY HAVE BEEN SOME EASING IN THE GROWTH OF DEMAND ACTIVITY IN THE SECOND QUARTER." SOME OF THE SLOWING DOWN IS ATTRIBUTABLE TO STRIKES IN THE CAR AND STEEL INDUSTRIES IN THE SECOND QUARTER. SECOND QUARTER GDP IS PUT AT 135.5 (1963100, S.A., OUTPUT DATA) COMPARED TO 134.5 IN THE FIRST QUARTER.

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4. THE INDEX FOR INDUSTRIAL PRODUCTION IN JUNE (ALL INDUSTRIES) WAS 140.7 COMPARED TO 141.3 IN MAY. FOR MANUFACTURING ALONE IT WAS 142.5 COMPARED TO 141.9 IN MAY (1963100, S.A.). THE LATEST ESTIMATES CONTINUE TO POINT TO A BASIC UPWARD TREND IN OUTPUT, BUT AT A LESS RAPID RATE OF GROWTH THAN IN THE PREVIOUS QUARTER. THE SECOND QUARTER SHOWED AN INCREASE OF 1-3/4 PERCENT OVER THE FIRST QUARTER FOR ALL INDUSTRIES AND 1-1/4 PERCENT FOR MANUFACTURING INDUSTRY ALONE. THESE FIGURES GIVE FURTHER EVIDENCE THAT THE GROWTH IN OUTPUT IS SLOWING DOWN AS INDUSTRY BEGINS TO ENCOUNTER PROBLEMS OF CAPACITY AND SHORTAGES IN THE SUPPLY OF LABOR AND MATERIALS.

5. WHOLESALE PRICES (I.E. DOMESTIC SALES OF MANUFACTURED PRODUCTS) ROSE AT AN ANNUAL RATE OF 12 PERCENT IN JULY, COMPARED TO A RISE OF 8 PERCENT BETWEEN JULY 1972 AND JULY 1973. THE INDEX NOW STANDS AT 122.7 PERCENT (1970 100) COMPARED TO 121.4 PERCENT IN JUNE. THE AVERAGE PRICE OF BASIC MATERIALS AND FUELS PURCHASED BY UK MANUFACTURING INDUSTRY ROSE BY 4 PERCENT IN JULY ALONE, TO A LEVEL 33 PERCENT HIGHER THAN A YEAR AGO. ABOUT 70 PERCENT OF THE BASIC MATERIALS AND FUELS USED BY BRITISH MANUFACTURING INDUSTRY ARE IMPORTED.

6. MORTGAGE RATES IN THE UK ARE TO RISE FROM 9.5 PERCENT TO 10 PERCENT. NEW BORROWERS WILL PAY THE HIGHER RATE IMMEDIATELY WHILE PEOPLE WITH EXISTING MORTGAGES FACE INCREASES OVER THE NEXT FEW WEEKS. IN APRIL, THE TREASURY HAD INTERVENED TO HELP KEEP THE RATES DOWN BY GIVING A 15 MILLION POUND BRIDGING GRANT TO THE BUILDING SOCIETIES. THIS TIME, THE TREASURY HAS ACCEPTED THAT IN THE CURRENT SITUATION, BUILDING SOCIETIES MUST FIX THEIR RATES AT A LEVEL WHICH WILL ENABLE THEM TO

ATTRACT FUNDS IN SUFFICIENT QUANTITY TO CARRY OUT THEIR
FUNCTIONS.

7. THE BIG BANKS HERE HAVE RESISTED PRESSURE TO RAISE THE
BASE LENDING RATE WHICH NOW STANDS AT THE EXTREMELY HIGH
LEVEL OF 10 PERCENT. PRESSURE IN THE MONEY MARKET HAS
EASED SOMEWHAT FOLLOWING THE SHORTAGE OF FUNDS ON
WEDNESDAY, WHEN THE SECOND INSTALLMENT OF SPECIAL
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DEPOSITS WAS PAID BY THE BANKS. IN THE INTER-BANK
MARKET, RATES ROSE TO LEVELS OF 18 PERCENT ALTHOUGH OVER-
NIGHT FUNDS FELL BACK TO BETWEEN 12 AND 14 PERCENT ON
THURSDAY. TWO OF THE LEADING US BANKS IN LONDON HAVE
RAISED THE COST OF THEIR STERLING LOANS. MORGAN
GUARANTY AND FIRST NATIONAL BANK OF CHICAGO HAVE LIFTED
THEIR BASE RATE FOR STERLING LENDING TO 11-1/2 PERCENT.
THEIR PREVIOUS RATES WERE 10-1/2 AND RATES HAVE RISEN 4
POINTS FROM 7-1/2 PERCENT SINCE THE END OF JULY.

8. THE FORWARD DISCOUNT ON STERLING WIDENED SHARPLY AT
THE BEGINNING OF THE WEEK BUT NARROWED SOMEWHAT ON
WEDNESDAY AND THURSDAY.

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USIA-15 ABF-01 RSR-01 /166 W

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R 171738Z AUG 73
 FM AMEMBASSY LONDON
 TO SECSTATE WASHDC 3429
 INFO AMEMBASSY BERN
 AMEMBASSY BONN
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 AMEMBASSY COPENHAGEN
 AMEMBASSY DUBLIN
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 AMEMBASSY PARIS
 AMEMBASSY ROME
 AMEMBASSY STOCKHOLM
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	8/9	8/16	CHANGE
1 MONTH	1.02-1/2	1.15	UP 0.12-1/2
3 MONTHS	2.75	3.10	UP 0.35
6 MONTHS	5.00	5.05	UP 0.05

(ALL FIGURES IN CENTS)

9. LOCAL AUTHORITY DEPOSIT RATES ROSE STEADILY UNTIL
 WEDNESDAY AND THEN FELL BACK RATHER SHARPLY ON THURSDAY
 TO LEVELS LITTLE CHANGED FROM LAST THURSDAY.
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	8/9	8/L6	CHANGE
1 MONTH	13-1/4	13-1/4	UNCHANGED
3 MONTHS	13-1/16	13-3/16	UP 1/8
6 MONTHS	12-3/8	12-3/4	UP 3/8

10. EURO-DOLLAR RATES CONTINUED TO MOVE IN A MIXED
 PATTERN, BUT WERE SOMEWHAT LOWER WHEN COMPARED TO LAST
 THURSDAY'S RATES.

	8/9	8/16	CHANGE
1 MONTH	11-1/2	10-7/8	DOWN 5/8
3 MONTHS	11-5/8	11-1/8	DOWN 1/2
6 MONTHS	11-3/4	11-1/8	DOWN 5/8

11. GOLD CLOSED AT \$100.50 ON THURSDAY, DOWN \$10 FROM
 LAST THURSDAY'S CLOSE.

12. THE MINIMUM LENDING RATE REMAINED AT 11-1/2 PERCENT.

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Message Attributes

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Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
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Review Comment: n/a
Review Content Flags:
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Review Event:
Review Exemptions: n/a
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EO Systematic Review
30 JUN 2005

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Review Transfer Date:
Review Withdrawn Fields: n/a
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Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS - WEEK ENDING AUGUST 17 BEGIN SUMMARY: STERLING CONTINUED TO MOVE DOWNWARD
TAGS: ECON, UK
To: STATE
Type: TE
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